

# Fiscal Note

*Fiscal Services Division*



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**Amendment S-3247** – Reinvestment Districts (LSB 2518S3247)

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Fiscal Note Version – New

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## **Description**

Amendment S-3247 to HF 641 authorizes municipalities, with approval from the Iowa Economic Development Authority Board, to establish Reinvestment Districts and to receive remittances of state sales tax and state hotel and motel tax revenues collected in the districts to fund projects within the districts. Additional provisions include:

- Specific requirements for establishment and approval of reinvestment district projects.  
Included in these requirements:
  - The district plan applications must be submitted by July 1, 2018.
  - The district area consists of contiguous parcels and must not exceed 25 acres.
  - Of all districts projects, authorizes a single project with at least a \$10.0 million capital investment level.
  - A requirement that state tax revenue designated to the district from the state Reinvestment District Fund not exceed 35.0% of the total costs of the projects.
  - A requirement that proposed capital investment for retail within a district is 50.0% or less of the total capital investment.
- Caps the total amount of state sales tax and state hotel and motel revenues remitted to all Reinvestment Districts at \$100.0 million.
- Creates a State Reinvestment District Fund. New state sales tax and state hotel and motel tax revenue will be deposited in the fund. New state sales tax revenue is defined as 4/6th of the state sales tax revenue from retailers within the district that receive a sales tax permit on or after the creation of the district. New state hotel and motel tax is defined as the total amount of state hotel/motel tax revenue from establishments within the district that receive a tax permit on or after the creation of the district.
- Creates a Reinvestment Project Fund. Moneys in this fund will consist of the state sales and hotel and motel tax revenues and are designated for the specific project for each municipality. Requires any monies remaining in the fund after project completion, or in excess of project costs, or upon the dissolution of a reinvestment district, to be deposited in the State General Fund.
- Limits the length of existence for a reinvestment district to 20 years after the commencement date.

## **Background**

Currently, the state sales tax rate is 6.0% with 5/6th of the state sales tax revenue deposited in the State General Fund and 1/6th deposited in the Secure an Advanced Vision for Education (SAVE) Fund. The state hotel and motel tax rate is 5.0% of the price of renting lodging.

## **Assumptions**

The number, composition, and timing of reinvestment district projects are currently unknown. Limitations on the size and scope of the districts will restrict the number and size of hotels, motels, and retail establishments that may be built in a district. The following assumptions provide scenarios for different size reinvestment district projects.

- Scenarios one and two are projects located in population areas of 10,000 or more with high traffic volume.
- Scenarios three and four are projects located in population areas of less than 10,000.
- Estimated taxable sales are based on Department of Revenue tax data for FY 2012 and assume growth retail growth factors forecasted by Moody's Analytics.
- Business classifications are defined as follows:
  - Mega Hotel: taxable sales of 150.0% of the average of the top 10 hotels in the state.
  - Large Hotel: taxable sales equivalent to the average of the top 10 hotels in the state.
  - Medium Hotel: taxable sales equivalent to the average of the top 300 hotels in the state.
  - Mega Restaurant: taxable sales of 150.0% of the average of the top 10 restaurants in the state.
  - Large Restaurant: taxable sales equivalent to the average of the top 50 restaurants in the state.
  - Medium Restaurant: taxable sales equivalent to the average of the top 1,000 restaurants in the state.
  - Retailer: average of retail stores in Iowa cities with a population of more than 10,000 (not including department stores or home improvement centers).
  - Boutique: average of retailers in cities with a population of more than 10,000.
- **Table 1** provides the estimated taxable sales amounts and fund transfers for each of the four scenarios. Data reflects district amounts for FY 2017.

<b>Table 1. Estimated Taxable Sales and Fund Transfers for Reinvestment District Scenarios Fiscal Year 2017</b>				
	Average Taxable Sales			
	Population Areas Above 10,000		Population Areas of less than 10,000	
	Scenario One	Scenario Two	Scenario Three	Scenario Four
Mega Hotel	\$ 12,452,357			
Large Hotel		\$ 8,301,571	\$ 8,301,571	
Medium Hotel				\$ 1,718,169
Mega Restaurant	\$ 7,269,330			
Large Restaurant	\$ 5,615,211	\$ 5,615,211	\$ 5,615,211	
Medium Restaurant		\$ 1,998,443		\$ 1,998,443
Retailer	\$ 1,284,723	\$ 1,284,723		
Boutique	\$ 272,918	\$ 272,918	\$ 272,918	\$ 272,918
Boutique	\$ 272,918	\$ 272,918		
<b>Total</b>	<b>\$ 27,167,456</b>	<b>\$ 17,745,783</b>	<b>\$ 14,189,700</b>	<b>\$ 3,989,530</b>
	FY 2017 Fund Transfers			
	Scenario One	Scenario Two	Scenario Three	Scenario Four
Hotel/Motel	\$ 622,618	\$ 415,079	\$ 415,079	\$ 85,908
Sales Tax	\$ 588,604	\$ 377,768	\$ 235,525	\$ 90,854
<b>Total</b>	<b>\$ 1,211,222</b>	<b>\$ 792,847</b>	<b>\$ 650,604</b>	<b>\$ 176,763</b>

- Based on the four scenarios, six example districts are considered with commencement dates between July 1, 2015, and July 1, 2018. New retail establishments reflect the scenarios in Table 1 and hotel investment types include new construction, renovation, or expansion.
- Construction cost estimates include \$72.2 million for a mega and large hotel, \$22.6 million for a medium hotel, \$1.4 million for a mega and large restaurant, and \$0.9 million for a retailer. Medium restaurant construction costs are assumed at half the cost of large restaurants, and boutique construction costs are assumed at half the cost of the retailer

amount. Growth in construction costs are based on consumer price index increases as forecasted by Moody's Analytics.

- Additional construction assumptions include:
  - Hotel construction requires two years prior to any lessor sales.
  - A new restaurant, retailer, or boutique requires one year of construction before sales. Sales at the new establishments are half of the expected amounts while hotel construction continues.
  - Hotels undergoing renovations have no new sales for one year.
  - Hotels undergoing expansion continue sales at the prior levels, but increase significantly after renovation.
  - Renovations to restaurants are assumed to not to disrupt overall sales.
- Based on the four scenarios provided above, the estimates assumes six example districts. **Table 2 and Table 3** in the fiscal impact section provides the investment and fiscal impact detail of each example district. Assumptions for the example districts include:
  - District 1: Assumes scenario one with all newly constructed establishments and a commencement date starting in FY 2017.
  - District 2: Assumes scenario four with a renovated hotel, other new construction, and commencement date starting in FY 2016.
  - District 3: Assumes scenario two with a renovated hotel and restaurant, other new construction, and commencement date starting in FY 2017.
  - District 4: Assumes scenario four with all newly constructed establishments and commencement date starting in FY 2018.
  - District 5: Assumes scenario two with all newly constructed establishments and commencement date starting in FY 2019.
  - District 6: Assumes scenario three with expansion of a hotel that adds an attraction (increases sales from a medium hotel level to large hotel level), other new construction, and commencement date starting in FY 2019.
- State sales tax and state hotel and motel tax revenue deposited in the State Reinvestment District Fund is defined as “new” state tax revenue under this legislation. However, sales from retailers within the district, to some extent, will impact sales from retailers outside but near the reinvestment district. Any sales made within the district that would have occurred outside the district will result in a net reduction of 4/6th of state sales tax that normally would be deposited in the State General Fund. This same issue applies to state hotel and motel tax revenue with any room rentals occurring inside the reinvestment district that reduce room rentals outside the district and will result in a net reduction in the state hotel/motel tax amount. This specific amount of these occurrences is unknown and is not reflected in the fiscal impact.
- The Department of Revenue will incur administrative costs to implement this legislation. This includes start-up costs for staff and technological improvements and ongoing costs for 2.0 FTE positions to manage and monitor transactions.

### **Fiscal Impact**

The estimated fiscal impact [S-3247](#) is unknown and will largely depend on the number, composition, and timing of reinvestment district projects. However, since the total amount of state tax revenue to be remitted to the Reinvestment District Fund is capped at \$100.0 million, the amount will not exceed \$100.0 million. Any fiscal impact is not anticipated to occur prior to FY 2015.

**Table 2** provides detailed information on the six example districts. Based on these examples and total investment level of \$281.3 million, the maximum amount of state sales and hotel and motel tax awarded will total \$98.5 million. Based on the assumptions for these example districts, the total amount deposited in the State Reinvestment District Fund is estimated to total \$88.5 million over a period of 20 years. Two of the six example districts (Districts 4 and 5) will not generate enough tax revenue to reach the maximum reinvestment award. The remaining example districts (Districts 1, 2, 3, and 6) are estimated to reach the capped level prior to the 20-year expiration.

Initial Year	District Example	Hotel Project	Total Investment	Maximum Reinvestment Award	Eligible Taxable Sales		State Reinvestment District Fund Transfers		
					Hotel	Retailers	Hotel/Motel	Sales and Use	Total
FY 2017	1	Mega Hotel Construction	\$ 80,100,000	\$ 28,035,000	\$274,932,755	\$ 357,209,057	\$13,746,638	\$14,288,362	\$28,035,000
FY 2016	2	Medium Hotel Renovation	\$ 11,200,000	\$ 3,920,000	\$ 38,103,155	\$ 50,371,056	\$ 1,905,158	\$ 2,014,842	\$ 3,920,000
FY 2017	3	Large Hotel Renovation	\$ 54,300,000	\$ 19,005,000	\$198,993,442	\$ 226,383,198	\$ 9,949,672	\$ 9,055,328	\$19,005,000
FY 2018	4	Medium Hotel Construction	\$ 25,300,000	\$ 8,855,000	\$ 48,454,558	\$ 64,055,253	\$ 2,422,728	\$ 2,562,210	\$ 4,984,938
FY 2019	5	Large Hotel Construction	\$ 83,100,000	\$ 29,085,000	\$241,338,429	\$ 274,556,613	\$12,066,921	\$10,982,265	\$23,049,186
FY 2019	6	Medium Hotel Expansion	\$ 27,300,000	\$ 9,555,000	\$120,552,060	\$ 88,184,925	\$ 6,027,603	\$ 3,527,397	\$ 9,555,000
<b>Total</b>			<b>\$ 281,300,000</b>	<b>\$ 98,455,000</b>	<b>\$922,374,399</b>	<b>\$1,060,760,102</b>	<b>\$46,118,720</b>	<b>\$42,430,404</b>	<b>\$88,549,124</b>

Notes: Investment amounts are based on data from ReedConstructionData.com. Taxable sales are based on Department of Revenue sales tax information for FY 2012. Investments are adjusted for forecasted inflation and sales are adjusted for forecasted retail sales growth from Moody's Analytics. It is assumed that hotel construction will take two years to complete, pushing the commencement date two years after the application date; hotel renovations will require one year to complete.

**Table 3** provides the amount of new State sales tax and State hotel and motel tax generated by each example reinvestment district after the commencement date by fiscal year. Based on these examples and investment level amounts, District 1, District 2, District 3 and District 6 will reach the maximum reinvestment award prior to the 20-year period. District 4 and District 5 will receive reinvestment district funds for the full 20 years without reaching maximum reinvestment reward amount.

Fiscal Year	District 1 - Mega Hotel Construction	District 2 - Medium Hotel Renovation	District 3 - Large Hotel Renovation	District 4 - Medium Hotel Construction	District 5 - Large Hotel Construction	District 6 - Medium Hotel Expansion	Fiscal Year Total
FY 2014	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
FY 2015	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
FY 2016	\$ 0	\$ 170,094	\$ 0	\$ 0	\$ 0	\$ 0	\$ 170,094
FY 2017	\$ 1,269,772	\$ 176,763	\$ 792,847	\$ 0	\$ 0	\$ 0	\$ 2,239,382
FY 2018	\$ 1,314,151	\$ 182,941	\$ 820,558	\$ 182,941	\$ 0	\$ 0	\$ 2,500,590
FY 2019	\$ 1,357,955	\$ 189,039	\$ 847,909	\$ 189,039	\$ 847,909	\$ 681,468	\$ 4,113,319
FY 2020	\$ 1,401,139	\$ 195,050	\$ 874,873	\$ 195,050	\$ 874,873	\$ 703,797	\$ 4,244,784
FY 2021	\$ 1,446,388	\$ 201,349	\$ 903,126	\$ 201,349	\$ 903,126	\$ 726,307	\$ 4,381,646
FY 2022	\$ 1,493,461	\$ 207,902	\$ 932,519	\$ 207,902	\$ 932,519	\$ 749,829	\$ 4,524,132
FY 2023	\$ 1,542,673	\$ 214,753	\$ 963,247	\$ 214,753	\$ 963,247	\$ 774,345	\$ 4,673,019
FY 2024	\$ 1,591,771	\$ 221,588	\$ 993,904	\$ 221,588	\$ 993,904	\$ 799,540	\$ 4,822,294
FY 2025	\$ 1,641,363	\$ 228,492	\$ 1,024,869	\$ 228,492	\$ 1,024,869	\$ 824,788	\$ 4,972,874
FY 2026	\$ 1,691,312	\$ 235,445	\$ 1,056,057	\$ 235,445	\$ 1,056,057	\$ 850,264	\$ 5,124,580
FY 2027	\$ 1,742,648	\$ 242,591	\$ 1,088,112	\$ 242,591	\$ 1,088,112	\$ 876,114	\$ 5,280,167
FY 2028	\$ 1,795,384	\$ 249,932	\$ 1,121,040	\$ 249,932	\$ 1,121,040	\$ 902,677	\$ 5,440,005
FY 2029	\$ 1,848,590	\$ 257,339	\$ 1,154,262	\$ 257,339	\$ 1,154,262	\$ 929,785	\$ 5,601,576
FY 2030	\$ 1,903,815	\$ 265,027	\$ 1,188,745	\$ 265,027	\$ 1,188,745	\$ 736,086	\$ 5,547,445
FY 2031	\$ 1,960,215	\$ 272,878	\$ 1,223,961	\$ 272,878	\$ 1,223,961	\$ 0	\$ 4,953,893
FY 2032	\$ 2,018,824	\$ 281,037	\$ 1,260,556	\$ 281,037	\$ 1,260,556	\$ 0	\$ 5,102,010
FY 2033	\$ 2,015,540	\$ 127,778	\$ 1,299,131	\$ 289,637	\$ 1,299,131	\$ 0	\$ 5,031,217
FY 2034	\$ 0	\$ 0	\$ 1,338,886	\$ 298,501	\$ 1,338,886	\$ 0	\$ 2,976,272
FY 2035	\$ 0	\$ 0	\$ 120,400	\$ 307,635	\$ 1,379,857	\$ 0	\$ 1,807,892
FY 2036	\$ 0	\$ 0	\$ 0	\$ 317,049	\$ 1,422,083	\$ 0	\$ 1,739,132
FY 2037	\$ 0	\$ 0	\$ 0	\$ 326,751	\$ 1,465,600	\$ 0	\$ 1,792,352
FY 2038	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,510,450	\$ 0	\$ 1,510,450
<b>District Total</b>	<b>\$ 28,035,000</b>	<b>\$ 3,920,000</b>	<b>\$ 19,005,000</b>	<b>\$ 4,984,938</b>	<b>\$ 23,049,186</b>	<b>\$ 9,555,000</b>	<b>\$88,549,124</b>

Note: Assumes all development would have occurred in the absence of the Iowa Reinvestment Fund.

The Department of Revenue will incur start-up costs for staff and technological improvements estimated at \$250,000 for the first year. Ongoing costs of \$180,000 will be incurred in the following years for costs associated with 2.0 FTE positions required to manage and monitor transactions.

**Source**

Iowa Department of Revenue

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/s/ Holly M. Lyons

May 14, 2013

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.  
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